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DE RUEHMN #0089/01 0242020
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FM AMEMBASSY MONTEVIDEO
TO RUEHC/SECSTATE WASHDC 6747
INFO RUCNMER/MERCOSUR COLLECTIVE
RUEHBO/AMEMBASSY BOGOTA 2568
RUEHCV/AMEMBASSY CARACAS 0473
RUEHLP/AMEMBASSY LA PAZ JAN LIMA 4874
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E.O. 12958: DECL: 01/24/2017
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SUBJECT: THE MERCOSUR RIO SUMMIT: USELESS FOR URUGUAY

Classified By: Ambassador Frank Baxter for reasons
1.4 (b) and (d).

¶1. (C) Summary: The following was gathered from press reports and from our close contacts within the GOU. It represents the view from Uruguay, where dissatisfaction with Mercosur has been steadily growing. President Vazquez's expectations for the Rio Mercosur Summit were reportedly "very low" and the Uruguayan delegation returned in a sober mood. Vazquez called for justice in addressing Uruguay's demands, not "welfare" or "hand-outs." The foreign ministers of Argentina and Uruguay clashed over the paper mills issue and presidents Chavez and Morales launched into diatribes against Colombia's Uribe (who had been invited to attend) for cozying up to the U.S. An axis of moderates)Chile's Bachelet, Vazquez and Uribe- appeared to have formed, as Brazil seemingly lacked leadership and Argentina adamantly refused any concessions. Bolivia began the process for induction into the bloc.

¶2. (C) Summary (cont.): The feeling here is that the GOU has given up on this "new" Mercosur characterized by a weak Brazilian presence and a bombastic Chavez. While still playing lip service by attending summits (albeit for a few hours) and pledging their commitment to a "more and better Mercosur", the Uruguayans appear to have lost any illusions as to what Mercosur can do for Uruguay. Vazquez has clearly opted for a trade policy based on opening up to extra-regional markets, negotiating free trade agreements and following up the Chilean example. End Summary.

The Expectations

¶3. (U) President Vazquez left for the Summit with "very low" expectations, saying that "Mercosur as it stands is of no use for countries like Uruguay or Paraguay". He landed in Rio late, stayed for only 14 hours, and was the only president absent in a dinner offered by Brazilian President Lula. All South American presidents (except for Peru's), and the prime ministers of Peru, Guyana and Panama were in attendance. Vazquez did not meet with Brazil's President Lula and avoided bumping into Argentine President Kirchner. In his speech, he

avoided referring to the paper mills dispute with Argentina.

The Atmospherics

¶4. (U) Vazquez started his speech by stating that Uruguay's integration in Mercosur remained his priority (he repeated his leitmotiv of "more and better Mercosur"), but he soon turned critical. He complained about Uruguay's large trade deficit with Mercosur and urged Paraguay's President Duarte (who now has the pro tempore presidency of the bloc) to convince Mercosur members of the need for more flexibility. Vazquez called for "justice" in addressing asymmetries, noting that "solidarity and generosity will come later." "The smaller Mercosur members are members in their own right, not subjects for welfare or hand-outs," he warned.

¶5. (U) Foreign ministers Gargano of Uruguay and Taiana of Argentina clashed loudly on the pulp mills issue. Gargano argued that Argentina was violating Mercosur's articles of incorporation and the ruling of the Mercosur Tribunal by continuing to block the access bridges between the two countries. He also complained about continued GOA obstacles to Uruguayan exports of recycled tires and bicycles. Taiana interrupted Gargano, and the clash got wide press coverage. Gargano, normally a fervent supporter of Mercosur, stood up and walked out of the meeting. He did not show up for the group photo of foreign ministers. After the meeting, Gargano faulted Lula for not showing sufficient leadership to correct the problems within the trading bloc, though Lula was quite conciliatory in his statement, admitting that each country has different needs which have to be considered. As for Economy Minister Astori, he came with Vazquez and did not show up for the ministerial meeting.

¶6. (U) A vignette illustrates best the acrimony and pettiness of the whole Rio Summit. Brazil's gesture of serving Uruguayan mineral water at the Summit dramatized the difficulties of the organization, as the water had to be brought in by military aircraft due to regulatory problems preventing its shipment across the border. Meanwhile, the Argentinean delegation replaced their bottles for an Argentine brand, prominently displayed in front of them. In Uruguay, after the summit, former President Batlle used the mineral water incident to illustrate Mercosur's troubles. Mercosur "isolates Uruguay from the world," he said, "and puts it into a situation where it is not in control of its destiny." He added that the smaller members are just being ignored.

¶7. (C) Bolivian President Morales attacked Colombian President Uribe by saying that "the U.S. put billions of dollars into Colombia with the excuse of fighting drugs." Uribe later spent about 40 minutes explaining Colombia's situation. Chavez labeled Uribe's reaction as exaggerated and Uribe reacted again. A GOU Economy Ministry participant told us that the Summit resulted in a clear cut division, with Colombia, Chile and Uruguay on the one side, and Venezuela and Bolivia on the other. The loss of leadership by Brazil, and Lula in particular, was striking, this participant added, with Chavez trying to run the show. He qualified Chavez as a "megalomaniac" and Morales as "intelligent but ignorant."

¶8. (U) As predicted, Chavez used the Summit to take over the show and convey his message of a South America united against imperialism. In his over half an hour long speech (he had 11 minutes allotted), Chavez criticized multinationals and called for more government intervention in the economy. He proposed three ideas to strengthen Mercosur: 1) he urged countries to join Telesur (a cable channel currently supported by Argentina, Brazil, Cuba, Uruguay and Venezuela), 2) he promoted the creation of Banco del Sur (a development bank funded with a percentage of international reserves of member countries) to break dependency on the IMF and the World Bank, and 3) he proposed strengthening the energy chain in the Southern Cone through the creation of Petrosur, a long-term project to integrate all state-owned oil companies

(PDVSA and Petrobras signed an agreement).

The Results

¶9. (U) The Summit's advances were modest at best. Among them:

- A working group was established to alleviate asymmetries between small and large countries and to work on making more flexible the rules of origin Uruguayan and Paraguayan goods. Prior to the summit, Brazil had offered to cut Mercosur content from 50% to 30% for the smaller economies. The initiative was strongly opposed by Argentina, which successfully delayed the measure. Brazil's ForMin Amorim suggested that Brazil may grant some of these measures unilaterally.

- The double imposition of the Common External Tariff (CET) for Uruguayan and Paraguayan goods was eliminated.

- Mercosur's FOCEM, a structural fund created in 2004, approved its first set of projects. It granted \$8.4 million for three projects in Uruguay, \$34 million for Paraguay, and \$16 million for a regional program against foot-and-mouth disease.

¶10. (U) Bolivia began the process to seek full membership, and Mercosur accepted the Bolivian proposal of launching a working group to address its integration. The group has a six-month term, extendable for six additional months. Bolivia's ForMin Choquehuanca reportedly stated that Bolivia will "not join Mercosur with eyes closed (...) this will take a year or more." Uruguay's MFA Director of Integration Amorin noted that the fact that Bolivia does not want to rescind its membership in the CAN (Andean Community) will make induction difficult, as CAN has its own common external tariff. Most observers see Morales's move as political, since Mercosur and Bolivia already trade close to 95% of their goods freely. Bolivian sales to Mercosur mostly gas-account for half of total exports and are almost five times as large as exports to the CAN. As for Gargano, he was satisfied at the prospect of incorporating Bolivia and wished that Ecuador could soon follow. He labeled it as a "gigantic step ahead", with no turning back. Vazquez was much more guarded. While reportedly supporting Bolivia's membership, he demanded that the same flexibility conceded to Bolivia be extended to Uruguay's requests.

¶11. (U) MERCOSUR and the Gulf Cooperation Council (GCC) issued a joint declaration on negotiations towards a FTA, to be concluded no later than June 2007. Negotiators have met three times over the last three months.

¶12. (U) The GOU presented a report on "Uruguay and Mercosur" and the GOP another on "Asymmetries in Mercosur from a Paraguayan Perspective." The GOU's document was very critical of Mercosur and made several proposals: to strengthen institutions; to resume work on eliminating non-tariff barriers in the short-term; to harmonize tax and fiscal policies, and incentives to investments; to start coordinating macro-economic policies; to promote joint ventures between firms from members states; to alleviate rules of origin; to restructure the CET; and to grant flexibility in trade negotiations with third countries.

¶13. (U) Mercosur launched three new institutes that had been previously approved: 1) a "Social Institute" to develop social projects; 2) a training center for government officials on regional integration, to be based in Montevideo; and 3) an "Observatory of Democracy" aimed at consolidating regional democracies and monitor elections in member states.

Comment: "New" Mercosur of no use to Uruguay

¶14. (C) In an interview with "El Pais" of Madrid, Vazquez criticized the Rio Summit, and Mercosur summits in general, for their lack of concrete results. As for Astori, he pointed out that no solutions had been found for Uruguay's concerns, "neither in the documents nor in the speeches," but

he pledged to continue to press for results. The feeling is that the GOU has given up on Mercosur and in particular on this "new" Mercosur characterized by a lack of Brazilian leadership and bombastic Chavez showboating. The Uruguayans will still pay lip service by attending summits (albeit for a few hours) and pledging their commitment to a "more and better Mercosur", but they appear to have lost any illusions as to what Mercosur can do for Uruguay. Vazquez has clearly opted for a trade policy based on opening up to extra-regional markets, negotiating free trade agreements and following the Chilean example. The Economy Ministry Trade Policy Director told us that Vazquez and Bachelet were planning to conduct a joint trip to the Far East in late March or early April. End Comment.
Baxter